

Corporate Committee

17 May 2011

Fraud Risk Management Review

All Ward(s)

Report authorised by: Executive Director of Finance and Resources: Mike Suarez

Executive summary

Organisations need to have an understanding of their fraud risks in order for any anti-fraud programme to be effective. This report provides assurance on the effectiveness of the management of fraud risks within the council's risk assessment processes.

Summary of financial implications

The report does not give rise to any additional capital or revenue financial implications. Actions to strengthen the fraud risk management process will be done within existing budgets.

Recommendations

That the Corporate Committee:

- (1) Consider and agree to the further strengthening of the management of fraud risks with the council's risk assessment processes.
- (2) Receive regular reports at future meetings on the effectiveness of the fraud risks management process, in line with the Committee's remit.

Consultation

Name of consultee	Department or Organisation	Date sent	Date response received	Comments appear in report para:
Internal				
Mike Dickens	Governance & Democracy	21/04/11	21/04/11	4.0
Finance Clearance	Corporate Finance	21/04/11	27/04/11	3.0
Cllr Paul McGlone	Cabinet Member for Finance	21/04/11		
DDRs	Council wide	04/03/11	04/03/11	None
M Nicolson/S Ali	Risk Management, F&R	21/04/11	21/04/11	2.6
External				
Neil Hankinson	KPMG	21/04/11		

Report history

Date report drafted:	Report deadline:	Date report sent:	Report no.:
18.04.11	03.05.11	03.05.11	16/11-12
Report author and contact for queries: Mohammed Khan, Chief Internal Auditor 020 7926 9481 mkhan@lambeth.gov.uk			

Background documents

Review of Fraud Risk Management Arrangements at Lambeth, KPMG/Lambeth Internal Audit, March 2011

Appendices

None

Internal Audit and Anti Fraud Strategy, 2011/12

1. Context

- 1.1. The Corporate Committee performs the 'audit committee' role at Lambeth. Its remit includes oversight of the internal audit and anti fraud functions.

2. Proposals and reasons

- 2.1. Organisations need to have an understanding of their fraud risks in order for any anti-fraud programme to be effective. This involves developing a methodology that is consistent with other risk assessment processes within the business, identifying fraud risks, determining the effectiveness of internal controls that impact upon fraud risks, classifying the risks and developing mitigation plans for those risks considered a significant threat.
- 2.2. As part of our contract with KPMG, we requested that they undertake a review which –
 - Examines current anti-fraud arrangements to identify potential gaps;
 - Understands and comments on the process undertaken by Lambeth to identify fraud risks; and
 - Provides recommendations on how to enhance the current anti-fraud arrangements.
- 2.3. In undertaking the review, KPMG interviewed the Risk Champions and compliance officers in each of the five departments; reviewed one process to ascertain how risks are fed from a department to the head of Risk; and conducted a spot check of the system to assess compliance with agreed procedures and identify weaknesses. We then reported to the Risk Champions Forum.
- 2.4. The KPMG findings were as follows –

(1) Understanding and identifying fraud risks at all levels in the council

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Risks are reviewed and recorded in the risk register at each level within the departments. Risks affecting senior management decision making are communicated at the Corporate Committee level. Risks relating to fraud can be highlighted in the JCAD system however, they are not always clearly distinguished as fraud risks in the risk registers and there is the possibility of not all fraud risks being identified and communicated to the Corporate Committee.

(2) Highlighting incidents and its consequences across the council.

There is a general understanding of fraud across Lambeth and guidance is accessible to all employees on the steps to take when fraud is identified. However, there is a concern that in some departments, where there is a perceived higher risk of fraud e.g. due to long-term procurement contracts, the cases coming to light relating to such fraud seem unusually low. (We have not tested this view).

(3) Challenging senior and lower management responsible on the fraud risks in their departments

Senior leadership is committed to tackling fraud at Lambeth as evidenced by regular senior departmental meetings where fraud is discussed. However, there is a need to challenge the process by which fraud risks are identified at lower levels within the organisation.

(4) Awareness of anti-bribery and corrupting legislation

Fraud training is provided to employees; however, this training is not mandatory. The UK Bribery Act 2010 will be implemented in later this year, and there appears to be no formal training or workshops being planned at present to ensure all staff at all levels are aware of the legislation.

2.5. KPMG made the following recommendations which we have raised with the Risk Champions and will be working with them on their implementation -

(1) Internal Audit and Risk should communicate to the departments on the different types of fraud risks affecting the organisation and how the risks could be monitored. They should provide guidance to staff responsible for identifying and recording the fraud risks in the risk register on what fraud risks are and how to identify and assess them. Fraud risks identified during workshops or other forums should be recorded on a timely basis into the risk register as well as the mitigating factors.

(2) The Corporate Committee should consider delivering an annual communication that clearly states Lambeth does not tolerate fraud. Where fraud incidents have taken place and action has been taken, this should be communicated through the Council to demonstrate Lambeth does not accept such violations.

(3) Senior management should provide more challenge to individuals responsible for identifying risks on specific fraud risks in their departments. Controls around fraud risks should be challenged by Internal Audit and action plans developed should be allocated to responsible staff and monitored for implementation.

(4) Staff across all grades at Lambeth should be trained on an annual basis on fraud awareness. This should be a mandatory process and kept updated on the new UK Bribery Act 2010 that will be implemented in later this year. The training could include the use of e-learning, classroom led courses or as team update events. All new joiners should undergo fraud training at induction, and newly promoted staff should be given fraud training according to their new role.

2.6. However, some of the KPMG findings have already been addressed such as including a new fraud theme for tagging risks within JCAD Risk.

3. Comments from Executive Director of Finance and Resources

3.1 The report does not give rise to any additional capital or revenue financial implications. Actions to strengthen the fraud risk management process will be done within existing budgets.

4. Comments from Director Governance & Democracy

- 4.1. Regulation 4 of the Accounts and Audit Regulations 2011 sets out the Council's responsibility for ensuring that its financial management is adequate and effective and that it has a sound system of internal control which facilitates the effective exercise of the Council's functions, and which includes arrangements for the management of risk.
- 4.2 Regulation 4 also requires the Council to conduct a review at least once a year of the effectiveness of its system of internal control.

5. Results of consultation

Organisational implications

5.1 Risk management:

Inadequate management of fraud risks will impact on the effectiveness of the council's anti fraud programme.

5.2 Equalities impact assessment:

None

5.3 Community safety implications:

none.

5.4 Environmental implications: None

5.5 Staffing and accommodation implications: None.

5.6 Any other implications:

5.7 Timetable for implementation
